UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/ICEF/1992/AB/L.8
12 May 1992

ORIGINAL: ENGLISH

UNITED NATIONS CHILDREN'S FUND
Committee on Administration and Finance
1992 session

FOR ACTION

RECOVERY OF COSTS FOR PRORATED PROJECT POSTS AND INCREMENTAL FIELD OVERHEADS ON SUPPLEMENTARY-FUNDED PROGRAMMES

SUMMARY

The present document summarizes experience to date in the application of the 6 per cent recovery rate charged to all supplementary-funded projects, excluding those funded by National Committees for UNICEF, non-governmental organizations (NGOs) and the Governments of programme countries and those funded for emergencies. In particular, as requested in Executive Board decision 1991/29 (E/ICEF/1991/15), this document analyses the adequacy of this charge in relation to administrative, personnel and operating costs.

Several conclusions can be drawn. UNICEF is now recovering the 6 per cent charge from virtually all eligible contributions. The recent, large increase in contributions for emergency programmes has created a significantly greater workload in UNICEF. Since there was a relative reduction in contributions for non-emergency supplementary-funded programmes, the current recovery policy is not generating sufficient income to cover the costs of prorated project posts and incremental field overheads for both emergency and non-emergency supplementary-funded programmes. Consequently, there is the need for an expansion of the current recovery policy to make it reflect more realistically the requirements of expected emergency programmes and to provide sufficient funds to cover prorated project posts and field overheads associated with the implementation of all supplementary-funded programmes.

The Executive Director recommends that the present policy of charging a 6 per cent recovery rate to all supplementary-funded programmes for non-emergency purposes, excluding those funded by National Committees, NGOs and host Governments funding their own programmes, shall continue. In addition, the Executive Director also recommends that, effective

immediately on Executive Board approval, a 6 per cent charge shall be made on all emergency supplementary-funded programmes, excluding only those funded by National Committees, NGOs and host Governments funding their own programmes. It is forecast that this policy would cover all staff in prorated project posts during the 1992-1993 biennium and generate an additional $4.9 million during the 1994-1995 biennium, which would be available for the incremental overhead costs of field offices.

CONTENTS

		Paragraphs	Page
INTRODUCTION		1 - 2	5
I.	CURRENT RECOVERY POLICY FOR UNICEF SUPPLEMENTARY-FUNDED PROGRAMMES	3 - 22	5
	A. Development of current recovery policy	3 - 11	5
	B. Collection of 6 per cent recovery funds	12 - 18	7
	C. Use of 6 per cent recovery funds	19 - 21	11
	D. Lessons learned from the collection and expenditure of the 6 per cent recovery charge	22	12
II.	REVIEW OF CRITERIA FOR COST RECOVERY	23 - 41	13
	A. Criteria for establishment of prorated project posts	24 - 25	13
	B. Projections for future recovery from the existing 6 per cent policy	26 - 28	14
	C. Six per cent recovery rate	29 - 30	15
	D. Donor exemptions	31 - 35	15
	E. Emergency programmes	36 - 39	16
	F. Projected recovery from the 6 per cent charge on all supplementary-funded programmes and use of funds	40 - 41	17
III.	CONCLUSIONS AND RECOMMENDATIONS OF THE EXECUTIVE DIRECTOR	42 - 43	18
	A. Conclusions	42	18
	B. Recommendations	43	19

List of tables

1. Supplementary funds income and expenditures 8

2. Contributions to supplementary funds 9

/...

CONTENTS (continued)

Page

3. Application of 6 per cent recovery funds 11

4. Six per cent recovery forecast based on existing policy 15

5. Six per cent recovery forecast based on proposed policy 18

INTRODUCTION

1. At its 1987 session, the Executive Board reviewed the methodology developed by the secretariat to apportion general operating costs to supplementary-funded projects (E/ICEF/1987/AB/L.1, paras. 32-37) and approved a 6 per cent recovery rate to be charged to all supplementary-funded projects, excluding those funded by National Committees for UNICEF and non-governmental organizations (NGOs) and those funded for emergencies (E/ICEF/1987/11, decision 1987/12). Host countries were also exempted from payment of recovery charges on the funding of their own programmes. The Board also resolved at the time that this 6 per cent rate should not be changed without the prior approval of the Executive Board.

2. The present paper summarizes experience to date in the application of the 6 per cent recovery rate, and in particular, as requested in Board decision 1991/29 (E/ICEF/1991/15), its adequacy in relation to administrative, personnel and operating costs. Conclusions and recommendations are submitted to the Executive Board for approval.

I. CURRENT RECOVERY POLICY FOR UNICEF SUPPLEMENTARY-FUNDED PROGRAMMES

A. Development of current recovery policy

3. Since 1968, when UNICEF was authorized to accept supplementary contributions from Governments, it has been recognized that some of the costs associated with the implementation and delivery of supplementary-funded programmes were included within the biennial budget covering administrative services and programme support costs. Those costs, directly associated with supplementary-funded programmes, were, therefore, being funded from general resources.

4. Since most supplementary-funded programmes are extensions of or closely related to ongoing general resources activities, core staff were involved with activities involving supplementary-funded programmes such as project identification and preparation, supply specification and procurement, staff recruitment and placement, fund-raising, accounting and financial management and donor reporting. While this use of core staff and resources made it possible to plan and implement supplementary-funded programmes at considerably less expense and in a more timely manner than would have been possible using entirely separate and unrelated resources, the use of the same staff for two types of programme activities raised the issue of cross-subsidization, i.e., the use of general resources income to support overhead costs associated directly with the delivery of supplementary-funded programmes.

5. In order to compensate for this absorption of overhead costs, interest income earned by unexpended supplementary funds has been credited to general resources as an off-set for that portion of administrative services and

programme support costs attributable to supplementary-funded programmes but difficult to identify.

6. In 1986, as part of a continuing process of refining supplementary funding policies and the proper apportionment of costs, the Executive Director submitted to the Executive Board a comprehensive report on supplementary funding (E/ICEF/1986/L.2). The Board consequently defined more precisely the nature of prorated posts and incremental overhead costs and decided that supplementary-funded projects should be charged specifically with the following:

(a) The cost of staff at headquarters locations whose posts are related exclusively to the administration of supplementary funds and associated programmes. The acquisition and administration of supplementary funds affect, in varying degrees, the work of Professional and General Services core staff in programme funding, programme field services, personnel, administration, accounting, finance and supply. Due to the centralized nature of this work, it was possible to identify functions related strictly to supplementary funds work and to concentrate them in specific posts to be classified, proposed and approved as project posts. Their costs would, therefore, be attributed either to one project or to a number of projects on a prorated basis;

(b) The travel and per diem costs associated with missions of core staff when those missions are undertaken for the preparation, monitoring and evaluation of supplementary-funded projects;

(c) A prorated allocation of general operating costs of offices administering supplementary-funded programmes. Those costs would consist mainly of rental and maintenance of premises, office supplies and equipment and furniture and fixtures. A basic premise for allocating those general operating costs was that they would be allocated to projects in direct proportion to the relative size of supplementary-funded projects to the total programme (general resources plus supplementary funds) administered by a given office.

7. With the exception of the staff costs mentioned above in subparagraphs (a) and (b), the proportional costs of other core staff who might be involved in the administration of supplementary funds would not be charged to the supplementary-funded project and would remain as an expenditure to be absorbed by the overall administrative budget. In this regard, the Executive Board reconfirmed that interest earned on unexpended supplementary funds contributions should continue to be credited to general resources to compensate for indirect costs which would be difficult or very costly to capture and would necessitate additional staff (E/ICEF/1986/12, decision 1986/9). It was projected that the interest earned on supplementary funds cash balances would remain at a level adequate to cover these costs.

8. The Board also confirmed in 1986 that the approach described above for the recovery of overhead costs on supplementary-funded projects was to exclude those funded by National Committees and all emergency activities.

9. The following year, in decision 1987/12 (E/ICEF/1987/11), the Executive Board noted the methodology developed by the secretariat to apportion general operating costs to supplementary-funded projects, as explained in the budget document (E/ICEF/1987/AB/L.1, paras. 32-37). The Board further resolved that the recovery charge should be 6 per cent and should be included as a separate budget item in the presentation of proposals for supplementary funding to donors, and that this recovery rate should not be changed without the prior approval of the Board. The recovery rate was to cover both incremental operating costs at field offices and administrative and project support staff at headquarters as heretofore prorated to all supplementary-funded projects for which related posts had been identified.

10. The recovery rate would be collected on actual supplementary-funded programme expenditures for a given budget year (E/ICEF/1987/AB/L.1 and Corr.1/Rev.1), and would apply only to projects that were negotiated after the policy was approved by the Executive Board at its 1987 regular session. The Board accepted the recommendation of UNICEF that budgets for emergency programmes should not be subject to cost recovery, and that contributions from National Committees and NGOs should be exempt from the foregoing costs, so as to maintain the maximum level of public support for the work of UNICEF. Host countries were also exempted from payment of recovery charges on the funding of their own programmes.

11. To maintain a ceiling on the number of staff prorated to all supplementary-funded projects, the Executive Board resolved that no posts could be added to this category without the prior approval of the Executive Board and that tables listing all project posts at headquarters locations would be included in all future biennium budget proposals (E/ICEF/1987/11, decision 1987/9).

B. Collection of 6 per cent recovery funds

12. UNICEF has now had more than four years of experience with the recovery of costs for prorated project posts and incremental field operating costs from supplementary-funded programmes. The financial history of supplementary funds income and expenditures and the application of the 6 per cent recovery charge in the period 1988 to 1991 inclusive is shown in table 1. Contributions to supplementary funds are shown separately in table 2 and the figure. There are several trends that can be observed in these figures.

13. Total supplementary funds income (for non-emergency and emergency programmes combined) has increased steadily from $275.8 million in 1988 to $308.2 million in 1991. This rate of growth is consistent with the overall and long-term trends for UNICEF income and matches the income projections

Table 1. Supplementary funds income and expenditures

(In millions of United States dollars)

INCOME BY SOURCE OF FUNDS												
	1988			1989			1990			1991		
	Prog.	Emer.	Total	Prog.	Emer.	Total	Prog.	Emer.	Total	Prog.	Emer.	Total
Government contributions:												
Eligible for 6 per cent recovery	n/a		n/a	59.8		59.8	133.9		133.9	82.3		82.3
Not eligible for 6 per cent recovery		23.0		67.9	41.3	109.2	25.8	40.1	65.9	5.0	94.9	99.9
Total government contributions	174.2	23.0	197.2	127.7	41.3	169.0	159.7	40.1	199.8	87.3	94.9	182.2
National Committee contributions	43.3	12.8	56.1	36.4	7.8	44.2	41.1	9.0	50.1	53.0	31.0	84.0
NGO contributions	15.5	0.6	16.1	23.3	0.2	23.5	20.5	1.5	22.0	29.0	1.6	30.6
Total National Committee and NGO contributions	58.8	13.4	72.2	59.7	8.0	67.7	61.6	10.5	72.1	82.0	32.6	114.6
United Nations system contributions	3.4	3.0	6.4	2.2	8.0	10.2	3.8	6.1	9.9	3.2	8.2	11.4
Total contributions	236.4	39.4	275.8	189.6	57.3	246.9	225.1	56.7	281.8	172.5	135.7	308.2
Potential recovery on contributions	n/a		n/a	3.5		3.5	7.4		7.4	4.7		4.7

EXPENDITURE BY SOURCE OF FUNDS												
	1988			1989			1990			1991		
	Prog.	Emer.	Total	Prog.	Emer.	Total	Prog.	Emer.	Total	Prog.	Emer.	Total
From government contributions:												
Eligible for 6 per cent recovery							86.6		86.6	76.9		76.9
Not eligible for 6 per cent recovery							62.0	32.4	94.4	34.1	64.9	99.0
Total from government contributions							148.6	32.4	181.0	111.0	64.9	175.9
From National Committee contributions		n/a			n/a		39.6	12.8	52.4	41.9	21.9	63.8
From NGO contributions							24.0	0.9	24.9	19.0	1.4	20.4
Total from National Committees and NGOs							63.6	13.7	77.3	60.9	23.3	84.2
From United Nations system contributions							1.9	4.7	6.6	4.1	9.0	13.1
Total expenditures	182.0	28.0	210.0	205.0	45.0	250.0	214.1	50.8	264.9	176.0	97.2	273.2
Amount recovered	1.9		1.9	3.3		3.3	4.4		4.4	4.5		4.5

Prog. = programmes.

Emer. = emergencies.

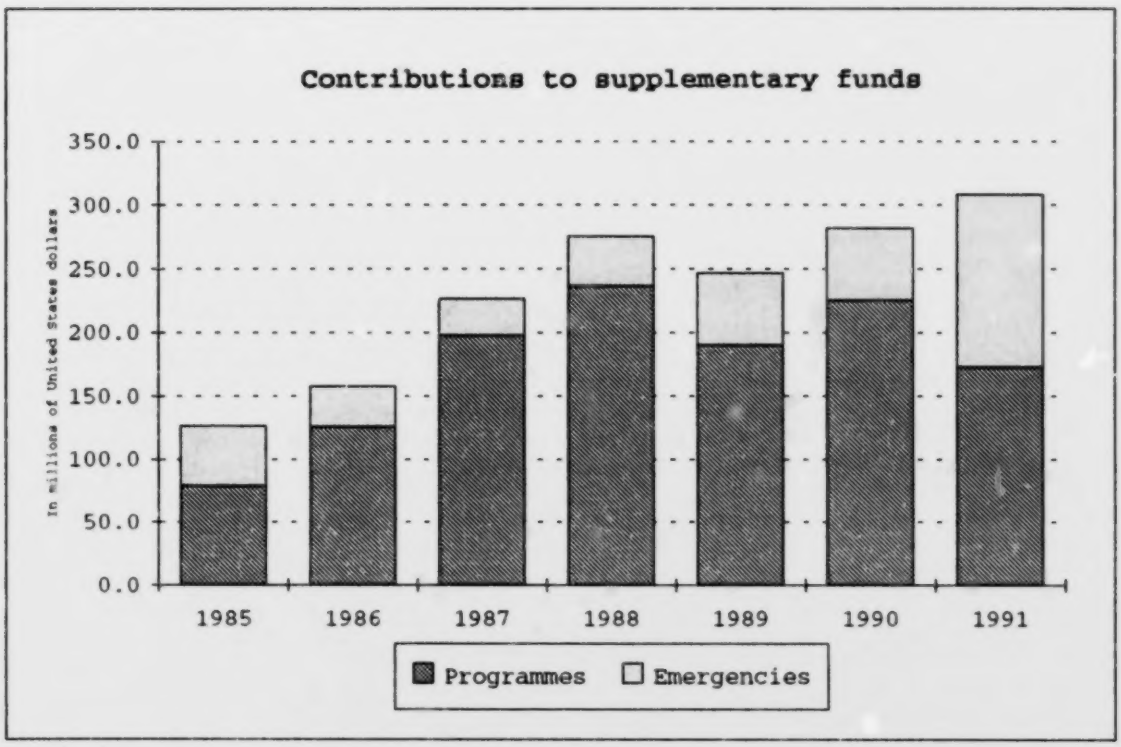
/...

Table 2. Contributions to supplementary funds

(In millions of United States dollars)

	1985	1986	1987	1988	1989	1990	1991
Programmes	78.4	125.8	197.7	236.4	189.9	225.1	172.5
Emergencies	48.0	32.0	29.0	39.4	57.0	56.7	135.7
Total	126.4	157.8	226.7	275.8	246.9	281.8	308.2

Figure



/...

contained in medium-term plans. Over a 10-year period, supplementary funds income has more than doubled from $135 million in 1982 to a projected level of $312 million in 1992. In real terms, this represents an increase of some 60 per cent, and supplementary funds income now represents approximately 35 per cent of total UNICEF income.

14. While total supplementary funds income has shown a comparatively steady year-to-year increase, the relative balance between non-emergency and emergency supplementary funds income has demonstrated considerable variation, with a particularly large shift between 1990 and 1991. Total emergency income in 1991, $135.7 million, was more than double the $56.7 million received in 1990. Non-emergency supplementary funds income fluctuated over the years and declined from $225.1 million in 1990 to $172.5 million in 1991. A comparable shift occurred in government contributions, where emergency income increased from $40.1 million in 1990 to $94.9 million in 1991, while the corresponding non-emergency supplementary funds income declined from $159.7 million to $87.3 million.

15. Actual expenditures of supplementary funds, in so far as they represent the multi-year use of recorded income, will always lag behind income. Nevertheless, the trends for expenditure are similar to those of income. Overall supplementary funds expenditures grew steadily from $210.0 million in 1988 to $273.2 million in 1991. Within this pattern of general growth, however, emergency expenditures increased much more quickly, from $28.0 million to $97.2 million. Non-emergency supplementary-funded programme expenditures, having increased from $182.0 million in 1988 to $214.1 million in 1990, declined to $176.0 million in 1991.

16. Actual recoveries achieved through collection of the 6 per cent charge were slow to reach the potential level of recovery, i.e., 6 per cent of total expenditures on government-sponsored non-emergency supplementary-funded programmes. Since the recovery charge was applicable only to programmes negotiated following the mid-1987 decision to impose a fee, many government contributions in the initial years of the policy, given the long lead times often involved in reaching agreement, were exempt from payment. By 1989, only $59.8 million in income out of a total of $127.7 million received from Governments was subject to a recovery charge. The remaining $67.9 million received from Governments for supplementary funds in 1989 was for programmes negotiated prior to mid-1987.

17. Figures for 1991 expenditures still show $34.1 million of government-funded, non-emergency expenditures exempt from payment of the recovery charge. However, by 1991, almost all programme income from Governments, $82.3 million out of a total of $87.3 million received, was eligible for payment of 6 per cent upon expenditure. The remaining $5.0 million was largely from Governments funding their own programmes.

18. The amounts actually realized through the 6 per cent recovery for overhead costs grew rapidly from $1.9 million in 1988 to $4.4 million in 1990. Then, in 1991, despite a large increase in the proportion of government contributions eligible for the 6 per cent charge, the amount recovered increased only very slightly to $4.5 million. The large increase in proportion recovered was almost completely offset by the impact of a decline in non-emergency programme income relative to emergency income.

C. Use of 6 per cent recovery funds

19. The funds raised through the 6 per cent recovery charge were applied towards both the costs of headquarters staff in prorated project posts and the incremental overhead costs of field offices in accordance with the decisions of the Executive Board. The use of funds since the inception of the recovery policy is shown in table 3.

Table 3. Application of 6 per cent recovery funds

(In millions of United States dollars)

	1987	1988	1989	1990	1991
Recovery on non-emergency programmes	0.0	1.9	3.3	4.4	4.5
Costs of staff charged to recovery	2.0	2.2	2.4	4.3	4.9
Net recovery	(2.0)	(0.3)	0.9	0.1	(0.4)
Amount available for field offices	0.0	0.0	0.9	0.1	0.0

20. In the initial years of the policy, 1987 and 1988, costs of prorated project posts exceeded amounts recovered and shortfalls were charged to all supplementary-funded projects on a prorated basis. Returns in 1989 and 1990 were sufficient to fund staff costs associated with approved prorated posts. However, in 1991, with the decline in government contributions to supplementary-funded programmes, there was a shortfall in amounts recovered relative to the costs of prorated project posts.

21. Owing to the decline in income for non-emergency supplementary-funded programmes and the related constriction of recovery charges, the Executive Director imposed a hiring freeze until the end of 1991 on prorated posts approved by the 1991 Executive Board. The budgetary requirement for prorated posts was thereby reduced by $0.9 million from the amount contained in the revised budget. Through this action, the Executive Director was able to keep the budgetary requirement for prorated posts in 1991 nearly within the level of resources available from the 6 per cent recovery charge. The shortfall of $425,000 was made up through the administrative and programme support budget, and no funds were available for the incremental overhead costs of field offices.

D. Lessons learned from the collection and expenditure of the 6 per cent recovery charge

22. The experience gained with the collection and expenditure of the funds generated by the 6 per cent charge during the period 1987 to 1991 indicates the following:

(a) Collection of the recovery charge in the initial years of the policy generally fell short of forecasts. This was a result of the persistently high number of programmes claiming exemption on the grounds of having already entered negotiations at the time of the decision in 1987 to establish the charge. However, by 1991, almost all supplementary funds programme income from eligible Governments was subject to complete recovery. In the future, only host Governments funding their own programmes will be exempt from the payment of supplementary-funded non-emergency programme recovery charges;

(b) Total supplementary funds income in the period 1987 to 1991 was in line with projections in the medium-term plan. However, income for emergency programmes increased much more rapidly than forecast in the medium-term plan, and non-emergency programme income lagged behind projections, especially in 1991. Emergency income reached $135.7 million in 1991, more than double the $60 million projected. Income for non-emergency supplementary-funded programmes was $172.5 million in 1991, considerably less than the forecast of $243.0 million. Since the two categories of supplementary-funded income are not fully independent for all donors, the large increase in emergency contributions for 1991 appears to have been related to the reduction in non-emergency programme contributions;

(c) Owing to the significant increase in emergency requirements, staff in prorated project posts, as well as those funded from the administrative and programme support budget, are now carrying out tasks associated with emergency supplementary-funded programmes. Emergencies have substantial costs associated with the preparation of appeals and proposals, recruitment and placement of staff, supply and procurement of goods and materials, accounting and financial administration, reporting and monitoring. At the present time, some of the 6 per cent recovery on supplementary-funded programmes, as well as general resources funds, support the administrative, personnel and operating

costs of emergencies, and as a result, cross-subsidization of programme activities is taking place;

(d) While emergency requirements and related income are not subject to accurate prediction, it is possible that the pattern established in 1991, one of significantly increased emergency needs at least partially associated with a reduction of non-emergency supplementary funds income, could continue into the future. Policies for the funding of costs associated with incremental field overheads and prorated project posts should take this possibility into account, and procedures for funding such elements of supplementary-funded programmes should be immune to shifts in the balance between non-emergency and emergency activities and avoid using recoveries from non-emergency contributions to fund overhead and staff costs of emergencies;

(e) The 6 per cent recovery charge on supplementary-funded programme contributions is insufficient on a sustainable basis to finance prorated project posts and incremental field overheads for both non-emergency and emergency activities. As long as emergency expenditures were relatively minor, it was possible to absorb costs, but this is not possible at the current higher levels of activity. With a possibly sustained increase in expenditure for emergency supplementary-funded programmes and a likely relative reduction in non-emergency contributions, there was a need to review the capacity of the current recovery policy on supplementary-funded programmes.

II. REVIEW OF CRITERIA FOR COST RECOVERY

23. The Executive Director's review of the policy established by the Executive Board in its decision 1987/12 (E/ICEF/1987/11) took into account all relevant factors. These included the history of recovery through the 6 per cent charge and the lessons learned; the future requirements for prorated project posts, including criteria for their establishment; the need for incremental field office overhead expenditures; the categories of donors which should pay recovery charges and those which should be exempt; the level of the recovery rate; and the nature of future income.

A. Criteria for establishment of prorated project posts

24. In order to provide proper accountability, UNICEF policy for the establishment of posts calls for the number of prorated project posts relative to the number of core posts to reflect the balance between activities funded by supplementary funds contributions and those funded by general resources. Thus, posts in the Division of Financial Management, the Programme Funding Office and the Office of Information Resources Management will be in the same ratio as supplementary funds income is to general resources. Posts in the Supply Division will be created in the same proportion as procurement is from general resources, supplementary funds and procurement services, respectively. The ratio of prorated project posts to total posts in the Division of

Personnel will reflect the overall ratio within UNICEF of prorated project posts to total posts.

25. In accordance with the document on criteria for core versus project posts (E/ICEF/1992/AB/L.15), posts in other divisions which are currently funded through the recovery charge will be converted to core funding in the next budget. Although there will be fluctuations from year to year in the balance between general resources and supplementary funds, the Executive Director, over the medium and long term, will strive to maintain the balance between prorated project posts and total posts in the same general ratio as that between supplementary funds income and total income. This balance will be reviewed on a biennial basis in the context of the preparation of the administrative and programme support budget and taking into account patterns established over the previous five years.

B. Projections for future recovery from the existing 6 per cent policy

26. It is anticipated that total supplementary funds income and expenditures in 1992 and future years will occur as projected in the current medium-term plan. Relative to earlier plans, the balance between non-emergency and emergency contributions will shift so that income for emergency supplementary-funded programmes is proportionately greater. Although the very high level of emergency income experienced in 1991 is unlikely to be sustained, the medium-term plan projections for income and forecasts for expenditures are based on a significant increase in emergency funding and a partially offsetting decrease in the growth rate of non-emergency supplementary funds programme income.

27. While it was still possible to carry out all mandated tasks in 1991 with recruitment frozen for the prorated project posts approved by the Executive Board, the additional workload requirements for 1992-1993 are such that UNICEF can no longer deliver all outputs with the reduced staff complement. Therefore, the projected costs for prorated posts were taken as set out in the approved 1992-1993 budget estimates, with adjustments to reflect adherence to the criteria set out in paragraphs 24 and 25 above.

28. Forecast income, expenditures and costs of prorated project posts, as shown in table 4, indicate a continuing shortfall on recovery charges relative to the cost of staff. The deficit would increase from the actual $0.4 million of 1991 to a projected maximum of $2.0 million in 1993. It would be 1995 before a modestly positive net recovery of $0.4 million once again made funds available for incremental field overhead costs.

Table 4. Six per cent recovery forecast based on existing policy

(In millions of United States dollars)

	Actual		Forecast			
	1990	1991	1992	1993	1994	1995
Recovery on non-emergency programmes	4.4	4.5	5.1	6.9	8.6	10.1
Cost of staff charged to recovery	(4.3)	(4.9)	(6.6)	(8.9)	(9.3)	(9.7)
Net recovery	0.1	(0.4)	(1.5)	(2.0)	(0.7)	0.4
Amount available for field offices	0.1	0.0	0.0	0.0	0.0	0.4

C. Six per cent recovery rate

29. Although it has taken more than four years for total implementation of the 6 per cent recovery charge, the policy is now firmly established. Collection of the full amount available from eligible donors is currently taking place. The amounts currently being recovered are adequate to finance the costs of prorated project posts for all non-emergency supplementary-funded programmes, but, as income figures for 1991 have shown, are insufficient also to cover the prorated project posts for rapidly expanding emergency programmes and to provide funds for the incremental overhead costs of field offices.

30. It is not considered appropriate to raise the rate of recovery on non-emergency programme expenditures in order to finance the overheads of emergency activities. Full recovery in this manner, with current patterns of contribution, would require a recovery rate of at least 8 per cent. This would amount to a further subsidy by those funding non-emergency programmes for costs identifiable and directly attributable to emergency activities. Such cross-subsidization of activities is inconsistent with sound financial management practices and proper cost accountability.

D. Donor exemptions

31. The rationale for the exemption of certain classes of donors from payment of recovery charges on non-emergency supplementary-funded programmes was reviewed, taking into account the following considerations.

National Committees for UNICEF

32. National Committees are an integral part of the UNICEF system. They have an important role in mobilizing public support on issues related to child survival and development, in fund-raising for UNICEF activities and in creating partnerships and alliances for children in their respective countries. Through the sale of greeting cards and the receipt of voluntary contributions, the great bulk of contributions from National Committees come directly from the public. Continued high levels of support for National Committees are based in no small measure on their ability to keep administrative and other overhead costs to an acceptable minimum, and they are regularly monitored in this respect by consumer "watchdog" groups and the media.

Non-governmental organizations

33. NGOs play an important role in the area of child rights and help to create public awareness on issues related to the well-being of children and to development in general. They collaborate with UNICEF at headquarters and field levels and contribute significant resources to UNICEF programmes. As with National Committees, NGOs must keep overhead costs to a minimum and also are regularly monitored in this regard.

Governments of programme countries

34. Governments of programme countries are becoming increasingly important donors to UNICEF supplementary-funded programmes, including emergencies. UNICEF has always encouraged the Governments of programme countries to become active partners in the development process and to provide additional resources for social sector activities. This trend can be encouraged by ensuring maximum programme impact from contributions by minimizing overhead expenditures.

35. Based on the above factors, it is considered that the reasons for the exemption of National Committees, NGOs and Governments of programme countries from all payment of recovery charges remain valid.

E. Emergency programmes

36. Total funding requirements for emergency programmes are, by definition, unpredictable. Emergencies are the result of a variety of political, social, economic and environmental factors, which generally become apparent only after the fact. However, despite this lack of predictability, recent years have shown a clear trend towards ever greater needs and increasingly larger appeals. Even though it is not possible to programme emergency needs in advance, Governments are increasingly calling upon UNICEF to respond quickly and to the full extent warranted by each situation. This creates a requirement for significant managerial, administrative, personnel and operational capacities and resources.

37. Current UNICEF procedures for emergency programmes specify that all related costs incurred to handle the workload, in addition to the cost of actual emergency assistance, should be charged directly to the emergency operation. This includes items such as personnel, travel, communications, office supplies, rental and maintenance of additional premises, accounting and reporting. UNICEF can thus build in some of the programme support costs of emergencies.

38. However, as with other supplementary-funded programmes, there are substantial administrative and other support costs which are not attributable to the delivery of specific emergency programmes or are shared with non-emergency programmes and administrative and programme support budget costs and are, therefore, not included within appeals themselves. In particular, there is a need at headquarters to prepare and coordinate appeals, raise funds, recruit and field staff, administer overall operations, oversee procurement and maintain relations with donors.

39. While the total exemption of emergency contributions from a recovery charge for incremental overhead costs and prorated project posts was possible when expenditures were relatively low, the increased volume and proportion of emergency programmes have made this unsustainable. If emergency programmes are to cover the prorated staff costs and incremental overhead costs associated with their delivery, it would require the imposition of a recovery charge comparable to that already applied to non-emergency, supplementary-funded programmes, currently 6 per cent. Such a recovery charge would provide the funds required for the prorated project posts at headquarters and the incremental field overhead costs associated with emergency programmes.

F. Projected recovery from the 6 per cent charge on all supplementary-funded programmes and use of funds

40. The expected income from a recovery charge applied to government contributions for supplementary-funded programmes at a rate of 6 per cent on both non-emergency and emergency contributions is shown in table 5. Continuing the present practice, National Committees, NGOs and host Governments funding their own programmes would remain exempt from any payment of recovery charges. Recovery and cost estimates are consistent with the income and expenditure figures in the current financial medium-term plan.

41. The projected recovery from a 6 per cent charge, as shown in table 5, would generate adequate resources for funding approved prorated project posts at headquarters locations, as well as provide a significant and increasing amount of resources for field office incremental overhead costs associated with the delivery of supplementary-funded programmes. An expected deficit of $0.9 million in 1992 would be offset by a comparable surplus in 1993 to provide a net balance for the 1992-1993 biennium. During the 1994-1995 biennium, the proposed recovery charge would generate an expected $4.9 million for incremental field overheads.

Table 5. Six per cent recovery forecast based on proposed policy

(In millions of United States dollars)

	Actual		Forecast			
	1990	1991	1992	1993	1994	1995
Recovery on non-emergency programmes	4.4	4.5	5.1	6.9	8.6	10.1
Recovery on emergency programmes	0.0	0.0	0.6	2.9	2.7	2.5
Cost of staff charged to recovery	(4.3)	(4.9)	(6.6)	(8.9)	(9.3)	(9.7)
Net recovery	0.1	(0.4)	(0.9)	0.9	2.0	2.9
Amount available for field offices	0.1	0.0	0.0	0.9	2.0	2.9

III. CONCLUSIONS AND RECOMMENDATIONS OF THE EXECUTIVE DIRECTOR

A. Conclusions

42. Analysis of the application and use of the 6 per cent recovery charge to date enables the following conclusions to be drawn:

(a) UNICEF is now recovering the 6 per cent charge from virtually all eligible contributions. Exemptions are being applied, as per Executive Board decisions, only to contributions for emergencies and those from National Committees, NGOs and host Governments funding their own programmes;

(b) Since 1990, government contributions for emergency supplementary-funded programmes have shown a sizeable increase with an offsetting reduction in funding for non-emergency programmes. As a result, the sums now being recovered are only sufficient to cover the designated overhead costs of non-emergency supplementary-funded programmes. The current recovery policy, with the shift in balance between emergency and non-emergency contributions, is not generating sufficient revenue to cover the costs of prorated project posts for emergency supplementary-funded programmes or to provide field offices with funding for incremental overhead costs;

(c) While emergency requirements and related income and expenditures are not subject to accurate prediction, the recent pattern of significantly increased emergency needs relative to non-emergency contributions is likely to

continue through the current and next biennium. The economic, social and political situation in many parts of the world could easily lead to requirements for further large-scale emergency operations;

(d) The current recovery policy is unlikely in the immediate future to generate sufficient revenue to cover any more than the costs of prorated project posts for non-emergency supplementary-funded programmes. The costs of prorated posts for emergency programmes and incremental overhead costs associated with emergency activities would not be met;

(e) By recovering from only a portion of government-sponsored programmes, the current policy can lead to considerable fluctuations in amounts recovered within predictable and relatively constant levels of overall supplementary-funded contributions. This volatility makes for difficulties in planning and budgetary control;

(f) There is a need for an expansion of the recovery policy so that it reflects the requirements of emergency programmes and provides for the prorated project posts and overhead costs associated with the implementation of all supplementary-funded programmes.

B. Recommendations

43. In the light of the above analysis and conclusions, the Executive Director recommends:

(a) That the policy of charging a 6 per cent recovery rate to all supplementary-funded projects for non-emergency purposes, excluding those funded by National Committees, NGOs and host Governments funding their own programmes, shall continue;

(b) That a charge of 6 per cent shall be made on all emergency supplementary-funded programmes, excluding those funded by National Committees, NGOs and host Governments funding their own programmes. The amount recovered should cover both incremental overhead costs in field offices and the costs of headquarters-based administrative and support staff working on emergencies and for which prorated posts have been identified and approved by the Board;

(c) That the procedures for assigning and collecting recovery charges should remain as currently established. The recovery amount, averaged over each biennium, should cover both the incremental overhead costs in field offices and administrative and project support staff as prorated to all supplementary-funded projects and for which related posts have been identified and approved by the Board. The recovery rate shall be applied to actual supplementary-funded expenditure in a given budget year, and in the presentation to donors, the 6 per cent recovery charge should be included as a separate budget item;

(d) That the emergency recovery rate shall be applied immediately to all agreements for emergency contributions signed following approval of the policy by the Board;

(e) That the 6 per cent rate for non-emergency and emergency supplementary-funded contributions shall not be changed without the prior approval of the Executive Board.